504 Program

504 Program Description

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1 Program Overview

SBA's Section 504 program helps small businesses obtain long-term financing for fixed asset projects. Financing for a Section 504 project comes from three sources. First, borrowers fund at least ten percent of the project cost with equity. Second, borrowers are required to obtain financing from a non-Federal source, generally a bank or other third-party lender. Finally, borrowers fund up to 40 percent of the total project cost in the form of a loan from a Certified Development Company (CDC). The CDC funds the 504 loan by issuing a debenture to investors that is fully guaranteed by SBA.

1.1 Program History

The Section 504 program began on July 1, 1986 as a pilot program and lasted through November 3, 1988. During the pilot, volume was low and CDCs and SBA had little experience with the program. Major changes to the program over time are:

- March 1, 1988: The number of months past due required for servicing to be transferred to SBA went from 10 months to 110 days.
- May 17, 1988: CDCs became subject to regular audit by SBA Office of Inspector General (OIG).
- February 2, 1989: Colson becomes the program Central Servicing Agent (CSA), replacing Chemical Bank.
- February 16, 1989: SBA increased the percentage of newly constructed space that borrowers could lease to third parties from 15 percent to 33 percent.
- November 7, 1989: Debenture size limit is raised from $500,000 to $750,000.
- November 7, 1989: Borrowers' required reserve deposit (percentage of net debenture proceeds) was decreased from 200 bps to 50 bps, and made non-refundable.[1]
- September 19, 1990: Underwriting clarification was made—loan approval should be based on fundamentals of business operations, not on salvage value of collateral.
- August 19, 1991: Debenture size limit is raised from $750,000 to $1,000,000.
- PL 104-208 (Small Business Programs Improvement Act of 1996) prescribed that SBA should undertake purchase or acceleration of debentures no later than 65th day past due (before this there were no specific guidelines).
- PL 104-208 established a pilot program for certain CDCs to liquidate purchased 504 loans.
- PL 104-208 eliminated prepayment penalties from being charged by third party lenders as well as increases in third-party lenders' interest rates upon default.
- March 1, 1996: Regulations allow any improvements on land to be considered a borrower equity contribution to a 504 project (not just the land)
- October 8, 1996: Borrower fee goes from 1/8 to 7/8; Third-party lender fee instituted.
- October 1, 2002: SBA begins collecting information on third-party lenders with liens senior to SBA lien.

1.2 Underwriting, Borrower and Project Eligibility

To qualify for the Section 504 program, a borrower and the specific project being funded must meet a number of eligibility criteria. First, borrowers must be for-profit businesses that are considered small based on SBA size requirements. Second, borrowers must be able to

[1] This reserve deposit is now referred to as the Upfront guaranty fee.

demonstrate a need for the program. Third, 504 loans must be used to fund fixed asset projects. The detailed criteria are:

Business size. The tangible net worth of the business must be no greater than $7 million and average net income after Federal taxes for the preceding two years must not exceed $2.5 million. Alternatively, the business must meet industry-specific size standards.

Need. Funds must not be available to borrowers elsewhere or not available under similar terms without SBA's guaranty. In addition, SBA requires that owners of 20 percent or more of the business provide a personal guarantee on repayment.

Use of proceeds. Section 504 loans must be used for fixed asset projects. Borrowers may use loan proceeds to acquire or make improvements to land,[2] acquire, construct, or expand buildings; or purchase or lease other fixed assets. Assets must have a useful life of at least 10 years. Financing for equipment, furniture, and other incidentals may be permitted where it is minor to the project.

Generally, loans cannot be used to finance investment property. An exception to this can be made where a loan is made to a passive company to acquire a property that will be leased to one or more operating companies. In this scenario, the passive company and operating companies must individually meet program eligibility requirements and a lease must be in place prior to loan approval. Also, borrowers may lease up to 20 percent of project property as long as they immediately occupy 60 percent

Loans can be used to acquire buildings or machinery that exist on leased real estate, as long as the lease term is at least equal to the loan term and the borrower assigns its interest in the lease to the CDC and SBA.

Proceeds may be used to finance land acquired prior to applying for the SBA loan or for any other project-related expense incurred within the nine months prior to application, payment of professional fees, and repayment of interim financing.

1.3 Financing Structure

SBA 504 loans provide permanent financing only. Borrowers who require funds for the construction or development of a project must obtain interim financing. Interim financing must be disbursed to fund project costs after the 504 loan is approved but before it closes. Typically, the provider of interim financing is the same third-party entity that provides a portion of the permanent financing. Permanent project financing comes from a borrower contribution of at least 10 percent of project costs, a third-party loan that generally covers fifty percent, and a 504 loan that covers the balance, up to 40 percent of total project costs.[3] Most often, the third-party loan holds the senior lien and the 504 loan holds the second.

1.3.1 Borrower Contribution

SBA requires that borrowers contribute at least 10 percent of 504 project cost. Borrower contributions may be in cash or equity in project-related real estate. The CDC and SBA may allow a 504 borrower to finance his contribution with borrowed funds, as long as the borrowing terms are acceptable.

Certain characteristics of the borrower and the project's underlying assets can increase borrower contribution requirements beyond 10 percent. If the required borrower contribution is greater than 10 percent, SBA requires that the 504 portion of the project financing be reduced

[2] Improvements may include streets, grading, parking lots, landscaping, etc.

[3] The 504 loan amount may slightly exceed 40 percent of total project cost if the borrower's upfront fees are capitalized into the loan.

accordingly and that the third-party lender fund at least 50 percent of the project cost. Exceptions to the normal 10 percent borrower contribution rate are as follows:

- **New businesses.** Businesses with less than two years of operating history are considered to be new businesses. New businesses are required to contribute 15 percent of 504 project cost.
- **Single use assets.** Borrowers are required to contribute 15 percent of project cost if the project involves single use assets, such as specialized buildings or machinery.

Where a project involves both single use assets and a new business borrower, the minimum required borrower contribution is 20 percent.

1.3.2 504 Loan

The 504 loan funds up to 40 percent of project cost and typically holds the second lien on project assets. The 504 loan is funded when its associated CDC debenture is pooled with CDC debentures for other projects and sold to investors. Debentures are fully guaranteed by SBA and amortize semiannually. Section 504 loans are monthly amortizing.

Loan amount. The maximum SBA guarantee on a 504 project is generally $1 million. If a project meets certain economic development objectives, the maximum guarantee is increased to $4 million. SBA sets the minimum 504 loan amount at $50,000, though $25,000 loans may be permitted in some cases. These limits apply to the loan proceeds used for project costs; borrowers may also add into the loan amount certain administrative costs, primarily fees associated with closing and funding the loan.

Interest rate. The note rate on a 504 loan is dependent on the interest rate at which the pool containing its associated CDC debenture is funded. The 504 note rate is the interest rate that equates the loan’s monthly payments with required semiannual payments to debenture holders and required fees. Because monthly amortization pays principal more quickly than semiannual amortization— resulting in relatively lower overall interest payments— this requires that the 504 note carry a higher interest rate than its corresponding debenture.[4]

Term. 504 loan terms are 10 or 20 years, depending on the expected life of the asset.

Collateral. Typically, the 504 loan holds a second lien on project assets, though this is not a requirement of the program. In cases where the third-party lender is the seller of the property, the 504 loan must hold the senior lien on project assets.[5] In general, holders of at least a 20 percent ownership interest in the borrower must guarantee the loan. Personal guarantees may be secured or unsecured.

1.3.3 Third Party Loan

One or more third-party loans must fund a portion of the project that is at least equal to the SBA-guaranteed portion. Third-party loans are not SBA-guaranteed. Third-party loans typically hold the senior lien on project assets unless the loans are made by the seller of the property, in which case it is subordinated to the 504 loan. The loans may be balloon loans if justifiable.

Loan amount. The total amount of all third-party loans must be at least equal to the SBA-guaranteed 504 loan amount.

Interest rates. Interest rates on third-party loans must be reasonable. SBA publishes a maximum interest rate for third-party loans in the Federal Register.

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[4] The borrower’s note rate is not reduced to reflect income on the float between monthly loan payments and the semiannual debenture payment. Float income is credited to the CDC, not the borrower.

[5] Banks selling and financing property from their REO inventory are exceptions.

Term. If the 504 loan term is 10 years, the third-party loan must have a term of at least 7 years. If the 504 loan term is 20 years, the third-party loan must have a term of at least 10 years.

Other terms. Third-party lenders must notify SBA within 30 days of borrower default and at least 60 days prior to foreclosure. Third-party lenders cannot escalate the borrower's interest rate upon default above the maximum interest rate set by SBA. Any escalated interest after default, late fees, prepayment penalties, and other default expenses charged to the borrower are subordinated to SBA's lien.

2 Business Processes

2.1 Marketing

CDCs are responsible to market the 504 program within their geographic area of operations. CDCs market directly to small businesses and to potential sources of referrals such as lenders, real estate brokers, accountants, and lawyers.

2.2 Application, Underwriting, and Approval

Businesses seeking financing under the 504 program generally apply with the CDC serving the area where the project will be located. The CDC makes a first-line determination of eligibility, then follows up with the applicant to explain the 504 program in detail, including program structure, terms, and fees. At this time, the CDC provides an application package for the prospective borrower to fill out.[6]

The applicant completes the application package and returns it to the CDC. The CDC logs the application in a tracking system and begins the underwriting process. CDC staff review the application package—the information it contains can vary based on CDC-specific underwriting procedures, but always includes items such as the business' tax, financial, and credit history, and personal information for individuals with a significant ownership stake in the business.

The CDC's final credit decision is made by the Board of Directors, or by a Board-appointed Loan Committee. If the project is approved, the CDC brings the loan application package back to the borrower for final completion and signature. The CDC then submits SBA Form 1244 and supporting exhibits to the SBA Loan Center, along with a draft commitment document.

The SBA Loan Center reviews the credit and collateral analyses performed by the CDC and approves or rejects the application.[7] If the project is approved, SBA sends SBA Form 1248, *Authorization and Debenture Guaranty*, to the CDC. The authorization provides terms and conditions under which SBA will guarantee a CDC-issued debenture backed by the project. The authorization is binding for twelve months, with the potential for extension. At approval, SBA permits the CDC to collect two-thirds of its total processing fee, with the final third permitted at closing.

2.3 Closing

Days, months or years may pass between the approval of a 504 loan and its closing. This time lapse may result from borrowers postponing the start of the project, but more often the delay reflects the time needed to acquire, construct, or renovate the project property. Since 504 loan proceeds can provide only permanent financing, projects must be completed before the loans can close.

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[6] The application package collects information required for CDC underwriting and to complete SBA Form 1244, *Application for Section 504 Loan*.

[7] The approval process is expedited for ALP and PCLP loans.

The 504 loan's restriction to permanent financing typically obliges the borrower to obtain interim financing from a third-party lender. Interim financing is often provided by the same third-party lender that provides permanent financing for the project. For example, a lender may provide interim financing for 90 percent of the project cost, then be reimbursed in the amount of the 504 loan once it is funded.

The 504 loan goes to closing after the project is completed and the third-party loan closes and its funds are disbursed. The CDC works with the borrower to assemble the closing package. The package consists of a number of executed documents. These include:

- SBA Form 1248, *Authorization and Debenture Guaranty*
- SBA Form 1504, *Development Company Debenture*
- SBA Form 1505, *Note*
- SBA Form 1506, *Servicing Agent Agreement*
- SBA Form 1429, *Use of Proceeds*

The CDC submits the closing package to the SBA district office. The district office reviews the package to ensure it complies with the authorization, information is complete and accurate, and that proceeds of any interim financing were used appropriately. The district office also makes any required changes to the initial authorization (e.g., a change in business name or required loan amount).[8]

After verifying that the conditions of the authorization have been met and that the loan is in compliance, SBA forwards to the CSA the *Servicing Agent Agreement*, *Note*, SBA Form 1429 *Use of Proceeds*, *Development Company Debenture*, and IRS form W-9. This provides the CSA with the information required to construct a debenture pool.

2.4 Funding

The CSA pools the debentures it receives and the pools are sold to investors. The proceeds of the sale are used to fund the 504 loans that back the debentures. Twenty-year debenture pools are issued monthly and ten-year pools are issued every two months.

The funding process begins when the CSA receives the closing information, including the CDC debenture, from the SBA district office. The CSA pools the debenture with others of the same maturity and sends pool information to the Development Company Funding Corporation (DCFC), which is responsible for marketing and selling the pools to investors. DCFC negotiates pool pricing with the program's underwriters and issues the pool at an agreed-upon interest rate.

On the issue date, proceeds of the issuance are wired from the trustee to the CSA. The CSA deducts its initiation fee specified in the *Servicing Agent Agreement* and SBA's upfront guaranty fee. Next, the CSA disburses the balance of the proceeds to pay off the interim lender, the CDC in the amount of its processing fee, and sends any residual to the borrower.[9]

The borrower note rate is determined at funding. The CSA uses the pool's agreed-upon semiannual payment-based interest rate to calculate a single monthly payment-based note rate that is applied to each 504 loan backing the pool. The CSA provides this note rate and amortization information to the CDCs, who inform the borrower of the final loan terms.

2.5 Servicing

Servicing procedures differ depending on whether loans are performing, delinquent, or in workout or liquidation.

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[8] Loan amounts may change from original estimates based on actual project costs.

[9] The CSA may carry out the disbursement through a settlement agent.

2.5.1 Performing Loans

While a 504 loan is performing and its debenture still outstanding, servicing responsibilities are shared between the CSA, CDC, and a SBA servicing center. Servicing for a 504 loan is independent of servicing for third-party loans. However, CDCs monitor the borrower's compliance with third-party loan terms.

Role of the CSA. Under a master servicing agreement with SBA, the CSA is responsible for collecting monthly borrower payments and disbursing funds to the various parties to the loan. The CSA collects on most 504 accounts through a pre-authorized monthly debit of a borrower's account. Collections flow through a master reserve account and the CSA disburses them to the appropriate parties.

- CDCs receive a monthly servicing fee. Also, CDCs periodically receive the interest earned on the float between monthly borrower payments and semiannual payments to the trustee.
- SBA receives a monthly guarantee fee as well as a portion of the CDC servicing fee.
- The trustee receives debenture payments semiannually. The trustee uses these funds to make scheduled payments to investors on debenture pools.

The CSA sends periodic reports to help CDCs and SBA monitor the portfolio. A report on the status of each loan in the portfolio is sent monthly to CDCs, district offices, and SBA headquarters. In addition, a report on delinquent loans is sent on the fifth and fifteenth of each month to the relevant CDCs and SBA district offices.

Role of the CDC. While loans are performing, CDCs monitor and communicate with borrowers. Borrowers are required to submit financial information, tax returns, insurance, and security filings to CDCs regularly. CDCs must report any adverse events or conditions promptly to SBA.

2.5.2 Delinquency and Workout

A loan is delinquent if the borrower fails to make a scheduled payment and does not make up the payment within the allowed fifteen day grace period. The CSA reports regularly on all delinquent loans. SBA makes advances to the CSA to make up for shortfalls in the semiannual debenture payment caused by delinquent loans.

If a loan is delinquent, CDCs and SBA follow up with the borrowers and identifies the circumstances around the delinquency as well as an appropriate course of action. Actions are undertaken in consultation with the senior lien holders, since actions taken on the senior lien affect the 504 loan.

When a loan becomes 45 days delinquent, SBA procedures give the responsible CDC fifteen days to bring the loan current or submit a report to the SBA district office describing the loan circumstances and any recommended workout plan. SBA is required to accelerate the note and purchase the debenture if no workout plan is in place by the 65th day of delinquency.[10]

Notes that are accelerated proceed towards foreclosure. Notes that the CDC and SBA opts to work out may go down one of several workout paths. Under a deferment, loan payments are deferred in part or whole for up to six months, with the expectation that the loan will "catch up" to original loan terms, including repayment of accrued interest, within five years.[11] Deferments can be serviced by the CDC and CSA and do not require that SBA purchase the debenture.

Other workout types include reamortization, breaking off unpaid interest into a separate note receivable, reducing the borrower's interest rate, or extending the loan term. By effectively

[10] Although SBA maintains formal guidelines for acceleration and liquidation upon delinquency, these guidelines are not followed strictly. Notes that are more than 65 days delinquent may not be accelerated if the field office and CDC believe that a workout is possible and advantageous to liquidation

[11] In extreme circumstances, deferments up to one year may be granted.

extending loan maturity or reducing total borrower payments, these options require that SBA purchase the debenture and take over servicing of the note from the CDC and CSA.

2.5.3 Liquidation

SBA is required to put a loan in liquidation status if a senior lien holder initiates a foreclosure action, if the borrower declares bankruptcy, or if a loan is 65 days past due and no written workout plan is in place. Liquidation generally results in SBA purchasing the 504 debenture and either SBA or the third-party lender foreclosing on project collateral. However, these outcomes are not fixed. A loan may exit liquidation status if underlying conditions improve and SBA can reach a workout agreement with the borrower.

Borrowers with 504 loans in liquidation generally have defaulted on their third-party loan as well. As a result, the activities that SBA undertakes during liquidation depend heavily on the actions of the senior lien holder. If the holder of the senior lien is proceeding to foreclosure, SBA may respond in one of the following ways:

- **Purchase the senior lien.** SBA may purchase the third-party lender's senior lien prior to foreclosure. SBA may then attempt to work out and service the acquired third-party loan together with its own loan, find a buyer for the property and encourage the borrower to sell, or foreclose.
- **Bid at foreclosure.** If the senior lien holder forecloses, SBA may bid on the project collateral at the foreclosure sale. If SBA acquires the project collateral at foreclosure, it attempts to sell the collateral. SBA is responsible for any maintenance costs incurred while it possesses the collateral.[12] If SBA is not the successful bidder at foreclosure, it will receive only proceeds of the foreclosure sale that are in excess of the amount owed to the senior lien holder.
- **Walk away at foreclosure.** SBA may walk away from the foreclosure sale. In this case, SBA's recoveries are equal to any proceeds of the foreclosure sale that are greater than the amount owed the holder of the senior lien.

If the senior lien holder does not foreclose, SBA may choose to work out the loan or to foreclose. Any proceeds of SBA-initiated foreclosure go first to extinguish the amount owed to the senior lien holder, with SBA receiving the residuals.

Regardless of the outcome of foreclosure by the senior lien holder or by SBA and the disposal of project collateral, SBA may continue to pursue collections on a defaulted 504 loan until the borrower's entire debt is extinguished. Often SBA refers outstanding debt to Treasury, which may collect through income tax refund offsets, wage garnishment, and other means.

In recent years, SBA has also sought to recover on defaulted 504 loans in its portfolio through asset sales. Loans sold in asset sales have included those performing and not performing under workout agreements between SBA and the borrower. SBA has sold loans packaged with and without the associated purchased senior liens.

2.6 Debenture Purchase

SBA is required to purchase the outstanding debenture prior to liquidating a loan— pursuing a workout that will change the terms of the loan— or upon a borrower's declaration of bankruptcy.

At acceleration of the note, the district office submits a request for debenture purchase to the appropriate Commercial Loan Servicing Center (CLSC). The CLSC aggregates purchase requests and sends a list of debentures to be purchased to the CSA. The CSA assembles the

[12] SBA may also pay property taxes up to the time of acquisition. SBA does not pay property taxes while holding the property.

information required to conduct the purchases, including the purchase amounts, deadlines, and wire instructions, and sends this information back to SBA.

A debenture can only be purchased from investors on its semiannual payment date. SBA typically wires funds for the debenture purchase shortly before the semiannual date. The purchase amount typically consists of the unpaid principal and interest balances on the note, plus monthly principal and interest payments up to and including the month of the semi-annual debenture payment. After purchase, the CSA and CDC servicing functions are terminated, although SBA may continue to rely on the CDC for as-needed support.

3 Debenture Termination

Debentures can terminate from active status by prepaying, being purchased by SBA, or maturing.

Prepayment. CDCs prepay debentures when borrowers prepay the underlying loan. Section 504 borrowers may prepay their loans by wiring to the CSA the amount outstanding on their note, plus monthly note payments up to and including the month of the next semiannual debenture payment and any prepayment premium. CDCs can prepay debentures on the third Tuesday of the month before their semiannual payment date.

Purchase. Purchase of a debenture and liquidation of the underlying loan are distinct events. Debenture purchase must be initiated prior to liquidation activities. SBA's debenture purchase amount will include monthly principal and interest payments up to and including the month of the semiannual debenture payment. There is no prepayment premium on purchased debentures.

Maturity. SBA-guaranteed 504 debentures are fully amortizing. Debentures that have not prepaid or been purchased make their final payment of principal and interest to investors at maturity.

4 Program Fees and Cash Flows

Table 1 contains a list of all fees collected by the different parties involved in the SBA 504 program, as well as all program cash flows paid or received by SBA. Table 2 contains program fees by cohort.

Table 1. 504 program fees and cash flows

Party to cash flow	Cash flow	Inflow/ outflow	Description
CDC	Processing fee	Inflow	Up to 150 bps of net debenture; 100 bps payable by borrower at issue of Authorization of Debenture, with remaining 50 bps payable at funding; otherwise 150 bps at closing or funding, at CDC discretion
CDC	Closing fee	Inflow	Reflects CDCs' actual closing costs, payable by borrower at closing or at funding
CDC	Servicing fee	Inflow	Between 62.5 and 200 bps of unpaid principal balance as assessed at 5-year intervals. Operationally, this range is 62.5 to 100 bps in most areas, and 62.5 to 150 bps in rural areas.
CDC	Late fee	Inflow	Maximum of 500 bps of the late payment amount, or $100.
CDC	Assumption fee	Inflow	Up to 100 bps on UPB of assumed loan. CDCs must obtain permission from SBA to charge this fee.
CSA	Initiation fee	Inflow	Governed by CSA servicing agreement

Party to cash flow	Cash flow	Inflow/ outflow	Description
CSA	Monthly servicing fee	Inflow	10 bps on loan UPB as assessed at 5-year intervals, as governed by CSA servicing agreement.
Other agents	Underwriting fee	Inflow	50 bps on 20-year debentures, 37.5 bps on 10-year debentures; calculated on gross debenture amount.
Other agents	Funding fee	Inflow	Actual costs, up to 25 bps on net debenture proceeds
SBA	Participation fee	Inflow	50 bps on senior lien amount, paid by senior lien holder
SBA	Upfront guaranty fee	Inflow	50 bps or less on net debenture
SBA	Funding fee residual	Inflow	Residual of 25 bps of net debenture and actual costs of trustee, fiscal agent, and transfer agent
SBA	Ongoing guaranty fee	Inflow	XX bps on loan UPB as assessed at 5-year intervals; amount of fee changes with estimated credit subsidy rate
SBA	CSA servicing fee residual	Inflow	Residual of CSA servicing fee and CSA's actual servicing costs
SBA	Development company fee	Inflow	12.5 bps of UPB on outstanding debenture, payable from CDCs servicing fee monthly
SBA	Advances on delinquencies	Outflow	SBA advances payments on delinquent 504 loans to fund scheduled debenture payments.
SBA	Repayment of advances on delinquencies	Inflow	SBA advances payments on delinquent 504 loans to fund scheduled debenture payments. Borrowers may repay these advances.
SBA	Purchase of debenture	Outflow	SBA purchases outstanding debentures when the underlying loans are accelerated
SBA	First lien purchase cost	Outflow	SBA can purchase the senior lien from 3rd party lender.
SBA	Purchase of collateral at foreclosure sale	Outflow	SBA may purchase project collateral at foreclosure sale.
SBA	Income on held collateral	Inflow	SBA may receive income from held collateral, for example, rental income if they can lease a held property
SBA	Expenses on held collateral	Outflow	SBA may pay property taxes, insurance, maintenance, or other expenses on held collateral.
SBA	Sale of held collateral	Inflow	SBA can sell held collateral. Sale of collateral occurs after SBA acquires the collateral at foreclosure or by other means.
SBA	Income on held notes	Inflow	Recoveries on held notes can occur from borrower payment within the framework of a workout, borrower repayment based on original terms, compromise of debt, collections from deficiency judgments, or other.
SBA	Expenses on held notes	Outflow	While holding a note, SBA may pay for appraisals of the underlying collateral, or incur other expenses.

Party to cash flow	Cash flow	Inflow/ outflow	Description
SBA	Sale of held notes	Inflow	After obtaining a 504 loan through purchase of its debenture, SBA can sell it. This loan may be only the original 504 loan, or be combined with a purchased senior lien.
SBA	Repurchase of notes sold in asset sale	Outflow	SBA is required to repurchase notes sold in an asset sale under certain conditions, for example if the borrower is discharged from bankruptcy just before the sale closes and this information is not known to the buyer.
SBA	Post charge-off recovery	Inflow	Charged off loans are referred to Treasury—Treasury collects from tax refund offsets, wage garnishment, and other mechanisms.
SBA	Recovery at foreclosure sale	Inflow	If the senior lien holder or SBA forecloses, SBA may achieve a recovery when the project collateral is sold at foreclosure to an outside buyer.
SBA	Loss recovery on PCLP loans	Inflow	PCLPs reimburse SBA for 10 percent of any principal written off on a purchased debenture

Table 2. 504 program fees by cohort

Cohort	Historical Percent of Funding Fee to SBA	Processing Fee	Closing Fee	Funding Fee	Initial Fee	Underwriting Fee	Upfront Fee	SBA Portion of Funding Fee	Participation (Lender) Fee	Annual Guarantee Fee	SBA portion of Development Company Fee	SBA portion of CSA Fee
1992	78.130%	1.500%	0.500%	0.250%	0.250%	0.625%	0.500%	0.195%	0.000%	0.0000%	0.000%	0.022%
1993	78.130%	1.500%	0.500%	0.250%	0.250%	0.625%	0.500%	0.195%	0.000%	0.000%	0.000%	0.022%
1994	78.130%	1.500%	0.500%	0.250%	0.250%	0.625%	0.500%	0.195%	0.000%	0.000%	0.000%	0.022%
1995	78.130%	1.500%	0.500%	0.250%	0.250%	0.625%	0.500%	0.195%	0.000%	0.000%	0.000%	0.022%
1996	78.130%	1.500%	0.500%	0.250%	0.250%	0.625%	0.500%	0.195%	0.000%	0.125%	0.000%	0.022%
1997	78.130%	1.500%	0.500%	0.250%	0.250%	0.494%	0.500%	0.195%	0.500%	0.875%	0.125%	0.022%
1998	78.130%	1.500%	0.500%	0.250%	0.250%	0.494%	0.500%	0.195%	0.500%	0.775%	0.125%	0.022%
1999	78.130%	1.500%	0.500%	0.250%	0.250%	0.494%	0.500%	0.195%	0.500%	0.729%	0.125%	0.022%
2000	78.130%	1.500%	0.500%	0.250%	0.250%	0.494%	0.500%	0.195%	0.500%	0.600%	0.125%	0.022%
2001	78.130%	1.500%	0.500%	0.250%	0.250%	0.494%	0.500%	0.195%	0.500%	0.472%	0.125%	0.022%
2002	78.130%	1.500%	0.500%	0.250%	0.250%	0.494%	0.500%	0.195%	0.500%	0.410%	0.125%	0.022%
2003	78.130%	1.500%	0.500%	0.250%	0.250%	0.494%	0.500%	0.195%	0.500%	0.425%	0.125%	0.022%
2004	78.130%	1.500%	0.500%	0.250%	0.250%	0.494%	0.500%	0.195%	0.500%	0.393%	0.125%	0.022%
2005	78.130%	1.500%	0.500%	0.250%	0.250%	0.494%	0.500%	0.195%	0.500%	0.288%	0.125%	0.022%
2006	78.130%	1.500%	0.500%	0.250%	0.250%	0.494%	0.500%	0.195%	0.500%	0.192%	0.125%	0.022%
2007	78.130%	1.500%	0.500%	0.250%	0.250%	0.494%	0.500%	0.195%	0.500%	0.018%	0.125%	0.022%
2008	78.130%	1.500%	0.500%	0.250%	0.250%	0.494%	0.000%	0.195%	0.500%	0.021%	0.125%	0.022%